

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 H-02 L-03 PA-02 PRS-01 ABF-01 FSE-00

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R 251207Z SEP 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 1393

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

AMEMBASSY ISLAMABAD

UNCLAS NEW DELHI 12917

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: INDIA ENDS RUPEE-POUND STERLING LINK

REF: A) NEW DELHI 11565

B) NEW DELHI 8901

1. EFFECTIVE SEPTEMBER 25, THE GOI DELINKED THE INDIAN RUPEE FROM THE POUND STERLING. THE EXCHANGE RATE OF THE RUPEE WILL NOW BE DETERMINED BY A WEIGHTED AVERAGE OF THE CURRENCIES(UNSPECIFIED) OF INDIA'S MAJOR TRADING PARTNERS. THE RESERVE BANK OF INDIA'S SPOT BUYING AND SELLING RATES FOR POUND STERLING HAVE BEEN FIXED TO YIELD A MIDDLE RATE OF RS 100317-) 097,\$ 5.4620 (POUND 1 EQUAL RS 18.3084), COMPARED TO THE PREVIOUS MIDDLE RATE OF RS 100 UNCLASSIFIED

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EQUAL POUND 5.3763 (POUND 1 EQUAL RS 18.60), WHICH HAS BEEN IN

EFFECT SINCE JULY 2, 1975 (REF B). THIS LATEST EXCHANGE RATE CHANGE REPRESENTS A REVALUATION OF THE RUPEE (IN RELATION TO STERLING) BY 1.6 PERCENT, ASSUMING ALL OTHER MAJOR CURRENCIES REMAIN UNCHANGED.

2. A FINANCE MINISTRY PRESS RELEASE STATED THAT THE POUND STERLING WILL CONTINUE TO BE USED BY THE RBI AS ITS CURRENCY OF INTERVENTION. A GOI SPOKESMAN EXPLAINED THAT THIS MEANT THAT THE DAILY EXCHANGE RATE FOR THE RUPEE, WORKED OUT IN RELATION TO THE EXCHANGE RATE OF THE BASKET OF CURRENCIES, WILL BE EXPRESSED IN TERMS OF STERLING. ACCORDING TO THE PRESS RELEASE, THE GOI HOPES THAT THE NEW EXCHANGE ARRANGEMENT WILL BRING ABOUT A GREATER DEGREE OF STABILITY TO INDIA'S EXCHANGE RATE AND INTERNATIONAL TRANSACTIONS. THE RELEASE EMPHASIZED THAT THE CHANGE WAS DESIGNED TO DEAL WITH A TRANSITIONAL SITUATION IN WHICH A LARGE NUMBER OF MAJOR CURRENCIES ARE NOW FLOATING. THE GOVERNMENT EARNESTLY HOPED THAT AGREEMENT CAN BE REACHED ON THE DETAILS OF A DURABLE SYSTEM OF EXCHANGE RATE REGULATIONS TO END THE PRESENT FINANCIAL UNCERTAINTY AND UNSTABILITY.

3. THE GOI REFUSED TO INDICATE THE BASKET OF CURRENCIES TO WHICH THE RUPEE WILL BE RELATED. FINANCE MINISTER SUBRAMANIAM INDICATED LAST MONTH THAT MAJOR CURRENCIES SUCH AS THE US DOLLAR, POUND STERLING, DEUTSCHE MARK, AND YEN PLUS OTHER CURRENCIES (PERHAPS THE FRENCH FRANC AND ONE IN A MIDDLE EASTERN OIL EXPORTING COUNTRY) WOULD BE INCLUDED IN THE BASKET.

4. FURTHER DETAILS AND ANALYSIS OF THE NEW EXCHANGE RELATIONSHIP WILL FOLLOW.SAXBE

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